



Staff Report

RESOLUTION SUPPORTING \$1 BILLION STATE BUDGET ALLOCATION OF PROPOSITION 1B FUNDS TO CITIES IN 2007-08

Honorable Mayor and Council Members:

Summary

It is recommended City Council adopt a resolution urging the Legislature and the Governor to appropriate \$1 billion in Proposition 1B Funds out of the 2007-08 State budget to fund vital local street and road repairs in California Cities.

Background

Last November, when voters passed Proposition 1A it was with the belief that funding for transportation through the sales tax on gasoline (Proposition 42, passed in 2002) was constitutionally protected. Prior to the election, this money could be borrowed at any time by the state in times of budget shortfalls. Proposition 1A closed this loophole, allowing the state to take these funds only under certain conditions with guaranteed repayment, including interest. Proposition 42 is the only stable and dependable revenue source to fund the maintenance and rehabilitation of city streets and roads. Beginning in FY 2008-09, these funds are expected to generate \$314 million for cities and will increase at a rate of four-to-five percent annually into the future.

Proposition 42 funds are currently allocated according to the following formula: 40% for the State Transportation Improvement Program (STIP), 20% to cities, 20% to counties and 20% to transit.

In addition, gasoline sales tax revenues, known as "spillover," also funds transit. Established by the Transportation Act of 1971, the spillover funds for local public transportation services and facilities come from the increase in sales tax revenue from rising gas prices. Simply put, spillover is the revenue from the gap between the growth in sales tax on gas compared to growth in sales tax on other taxable goods. The spillover increases when gas prices and/or consumption increases at a faster rate than other goods. Significant spillover has been generated in recent years due to rapidly escalating gas prices.

Discussion

Proposed Changes

Due to a significant increase in spillover funds in recent budget cycles and a projected increase in the foreseeable future, these funds continue to be a target in times of state budget shortfalls. These funds have been diverted from transit as a way to pay for other state obligations. To prevent this diversion, there are a number of proposals on the table seeking to protect the spillover funds so they remain dedicated to transit funding as originally intended. While cities agree that transit funding is important to protect, we want to ensure that this protection does not threaten some of our stable funding sources *including* Proposition 42.

The Governor's 2007-08 budget proposes to divert spillover funds away from transit. This has resulted in discussions about how to protect spillover funds dedicated to transit in the long term. For example, the Assembly Budget Subcommittee #5 is proposing to move spillover funds into Proposition 42 alleging that this protects the funds from budget raids. In conjunction, the proposal includes a change to the statutory Proposition 42 funding formula, increasing the percentage to transit while decreasing funding to cities, counties and the state. The new formula would allocate 15% to cities, 15% to counties, and 35% to STIP, with the remaining 35% going to transit.

What this Means for Cities?

This means that Proposition 42 Funding for local streets and roads is threatened.

Transit advocates and other advancing proposals involving the spillover and a change in the Proposition 42 formula are telling cities and counties that they should not be worried. They argue that the changed formula will still result in increased revenues because of the infusion of spillover funds. From a city perspective, however, this proposal is fraught with risk:

- **Volatility Risk:** Predicting the spillover comes down to predicting the future price of gasoline. While state analysts are currently predicting a surplus over the next five years, the foreseeable future is at most a five year assumption. In the long term, it is impossible to accurately predict spillover. The spillover money is, by its nature, highly volatile and unpredictable. In fact, during the 17 year period from 1986 to 2003, 13 years had no spillover. The other four years provided an insignificant amount, ranging from just over \$2 million to just over \$39 million.
- **Political Risk:** Cities and counties have been taught some hard lessons of where protecting their funds has ranked in the priorities of the legislature compared to other state funding priorities. Within the last decade, cities and counties have experienced efforts to take away property tax, vehicle license fees, sales tax, transportation funds and

unpaid mandate claims. This experience forced us to resort to two Constitutional amendments (Proposition 1A of 2004 and Proposition 1A of 2006) designed to protect local funds. Changing the Proposition 42 formula would expose cities and counties to an annual battle to protect these funds from budget takeaways.

- Worst Case Scenario: No spillover is allocated. Under the proposed change to the Proposition 42 formula the amount allocated to transit virtually doubles, while city and county revenue is cut by 25 percent. Under a worst case scenario, the Governor and Legislature could decide to use all of the spillover for other budget priorities. With transit getting virtually double their previous Proposition 42 amount, they may not complain. Cities and counties will bear the brunt of these cuts.

Protection of Transit Funding Needed

Cities clearly support transit funding, but the proposed change to Proposition 42 that destabilizes local streets and road funds is not the way to achieve this.

The spillover formula has been in law for over 30 years. The Legislature can simply reject the Governor's proposed cuts to transit and balance the budget using other means.

Transit spillover funds really need Constitutional protection. Such a measure could be patterned after Proposition 1A of 2004, where long term protection was provided in exchange for several years of contributions to the state budget gaps.

General Plan/Vision Statement

There is no impact from this report.

Fiscal Impact

There is no fiscal impact from this report.

Public Contact

The Council agenda was posted.

Recommendation

It is recommended City Council adopt a resolution urging the Legislature and the Governor to appropriate \$1 billion in Proposition 1B Funds out of the 2007-08 State budget to fund vital local street and road repairs in California Cities.

Alternatives

1. Take no action.
2. Refer back to staff for further information.
3. Deny approval.

Attachments

- A. Resolution

Respectfully submitted,

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Director of Public Works

Jack R. Crist
City Manager

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**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT
SUPPORTING \$1 BILLION STATE BUDGET ALLOCATION
OF PROPOSITION 1B FUNDS TO CITIES IN 2007-08**

WHEREAS, the voters of California passed Proposition 1B (\$19.9 billion transportation bond) in November 2006, and were promised \$2 billion would be used to improve local streets, roads and other priority local transportation projects; and

WHEREAS, California's cities are ready to go to begin work on local traffic safety repairs, congestion relief, fixing crumbling roads, improving mass transit and other local transportation improvement projects; and

WHEREAS, according to a League of California Cities survey, cities have numerous local projects that can put the city share of the \$1 billion in local street and road moneys to use right away for the benefit of citizens and businesses; and

WHEREAS, cities need sufficient Proposition 1B funds allocated this year to begin work on local transportation projects that are ready to go. Early allocation of these funds will allow projects to get underway immediately and will prevent unnecessary delays; and

WHEREAS, some Proposition 1B projects will take years or even decades to complete, many city transportation improvement projects are ready to get off the drawing board and into construction right away, demonstrating to voters that the state and local governments are making good on their promise to spend bond funds in a timely and responsible manner; and

WHEREAS, local streets and roads are a critical component to a seamless transportation network, the mobility of California residents, the transport of goods and services, and the strength of our economy; and

WHEREAS, cities will not receive any Proposition 42 (gasoline sales tax) funds for local streets and roads during the 2007-08 year and Proposition 1B funds will allow projects already underway to continue without interruption; and

WHEREAS, an untimely or inadequate allocation of Proposition 1B funding this year would unnecessarily cause project delays of up to one year and limit the construction of many mid- and large-sized projects that are otherwise ready to go.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Belmont adopt a resolution urging the Legislature and the Governor to appropriate \$1 billion in Proposition 1B Funds out of the 2007-08 State budget to fund vital local street and road repairs in California Cities.

* * * * *

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on June 26, 2007 by the following vote:

AYES, COUNCILMEMBERS: _____

NOES, COUNCILMEMBERS: _____

ABSTAIN, COUNCILMEMBERS: _____

ABSENT, COUNCILMEMBERS: _____

CLERK of the City of Belmont

APPROVED:

MAYOR of the City of Belmont